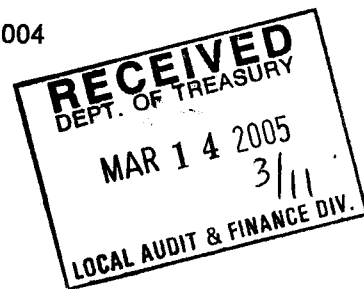


CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended December 31, 2004

09-1130



AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Charter Township of Portsmouth	County Bay
Audit Date December 31, 2004	Opinion Date February 25, 2005	Date Accountant Report Submitted to State: February 25, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

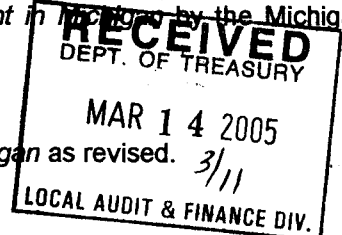
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686	City Bay City	State MI	Zip 48707
Accountant Signature Campbell, Kusterer & Co., P.C.			



CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
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BAY CITY, MICHIGAN 48707

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FAX (989) 894-5494

INDEPENDENT AUDITOR'S REPORT

February 25, 2005

To the Township Board
Charter Township of Portsmouth
Bay County, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of Charter Township of Portsmouth, Bay County, Michigan as of and for the year ended December 31, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Charter Township of Portsmouth's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities and each major fund of the Charter Township of Portsmouth, Bay County, Michigan as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, of these activities and funds for the year ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of January 1, 2004.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2004

The Management's Discussion and Analysis report of the Charter Township of Portsmouth covers the Township's financial performance during the year ended December 31, 2004.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at December 31, 2004, totaled \$1,317,743.38 for governmental activities and \$3,476,840.18 for business-type activities.

Overall revenues were \$1,365,493.82 (\$751,582.21 from governmental activities and \$613,911.61 from business-type activities). Overall Township activities had a \$242,108.97 increase in net assets in 2004 and a loss of 7% (\$18,000.00) in State revenue sharing.

Taxable value increased by approximately \$251,000.00 or .03%.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities and business-type activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities and business-type activities. These include the General Fund, the Water Fund and the Sewer Fund.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2004

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental Funds: Some of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental funds include the General Fund.

Business-Type Funds: The Township has a Water Fund and a Sewer Fund which includes the activity of providing revenue to pay bond debt.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

We continue to pay required amounts on our sewer and water loans as special assessments and debt service are collected.

The sewer bond (\$7,250,000.00) has a principal balance of \$3,325,000.00 with payments scheduled through 2012. Special assessment and debt service revenue appear to be sufficient to cover these bond payments.

1977 Merritt/Portsmouth Water Bond Issue (Portsmouth share \$233,436.00): This issue has a principal balance of \$116,321.00 with payments scheduled through 2016. Debt service revenue appears to be sufficient to cover these payments.

1998 Merritt/Portsmouth Water Bond Issue (Portsmouth share \$1,316,000.00): This issue has a principal balance of \$1,001,904.20 with payments scheduled through 2018. Special assessment and debt service revenue appears to be sufficient to cover these payments.

Our cash position in both governmental and business-type activities remain strong.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for most of the Township's governmental services. The most significant are Streets and Roads which incurred expenses of \$96,362.40 including debt service and Fire Protection with expenditures of \$91,927.39 including capital outlay. Contracted Trash Collection is a significant expenditure each year, \$148,095.48 in 2004. These funds are provided by a special assessment, updated yearly, on all residences.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township's governmental activities invested \$18,636.33 in capital assets.

The Township's business-type activities invested \$0.00 in capital assets.

The Township's governmental activities paid \$59,682.84 of principal on the contract payable.

The Township's business-type activities paid \$73,338.38 of principal on the Water Bonds payable, and \$380,000.00 of principal on the Sewer Bonds payable.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2004

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents 35% of our income. We continue to grow at a .5% rate in taxable values with little demand for infrastructure, except good roads and water, where available.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to demonstrate the Township's accountability for the revenue it receives. If you have any questions about this report or need additional information, we welcome you to contact the Township office at 989-892-7221.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
December 31, 2004

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS:			
CURRENT ASSETS:			
Cash on hand	100 00	-	100 00
Cash in bank	476 541 36	524 844 67	1 001 386 03
Taxes receivable	195 187 80	166 490 99	361 678 79
Special assessments receivable	-	1 301 395 30	1 301 395 30
Internal balances	70 040 85	(70 040 85)	-
Due from State of Michigan	43 946 00	-	43 946 00
Total Current Assets	<u>785 816 01</u>	<u>1 922 690 11</u>	<u>2 708 506 12</u>
NONCURRENT ASSETS:			
Capital Assets	1 291 011 33	10 042 038 00	11 333 049 33
Less: Accumulated Depreciation	<u>(382 777 70)</u>	<u>(2 463 238 00)</u>	<u>(2 846 015 70)</u>
Total Noncurrent Assets	<u>908 233 63</u>	<u>7 578 800 00</u>	<u>8 487 033 63</u>
TOTAL ASSETS	<u><u>1 694 049 64</u></u>	<u><u>9 501 490 11</u></u>	<u><u>11 195 539 75</u></u>
LIABILITIES AND NET ASSETS:			
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts payable	5 580 05	-	5 580 05
Accrued payroll taxes	1 294 78	-	1 294 78
Deferred revenue	<u>369 431 43</u>	<u>1 581 424 73</u>	<u>1 950 856 16</u>
Total Current Liabilities	<u>376 306 26</u>	<u>1 581 424 73</u>	<u>1 957 730 99</u>
NONCURRENT LIABILITIES:			
Contracts payable	<u>-</u>	<u>4 443 225 20</u>	<u>4 443 225 20</u>
Total Noncurrent Liabilities	<u>-</u>	<u>4 443 225 20</u>	<u>4 443 225 20</u>
Total Liabilities	<u>376 306 26</u>	<u>6 024 649 93</u>	<u>6 400 956 19</u>
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	908 233 63	3 135 574 80	4 043 808 43
Restricted for debt service	-	341 265 38	341 265 38
Unrestricted	<u>409 509 75</u>	<u>-</u>	<u>409 509 75</u>
Total Net Assets	<u>1 317 743 38</u>	<u>3 476 840 18</u>	<u>4 794 583 56</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>1 694 049 64</u></u>	<u><u>9 501 490 11</u></u>	<u><u>11 195 539 75</u></u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended December 31, 2004

FUNCTIONS/PROGRAMS	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Governmental Activities:			
Legislative	9 600 00	-	(9 600 00)
General government	198 602 17	56 141 84	(142 460 33)
Public safety	211 604 72	47 318 54	(164 286 18)
Public works	187 218 79	195 445 20	8 226 41
Recreation and culture	979 99	-	(979 99)
Other	59 147 08	-	(59 147 08)
Total Governmental Activities	<u>667 152 75</u>	<u>298 905 58</u>	<u>(368 247 17)</u>
Business Type Activities:			
Water and sewer	371 802 64	272 474 92	-
Total Business Type Activities	<u>371 802 64</u>	<u>272 474 92</u>	<u>-</u>
Total Government	<u>1 038 955 39</u>	<u>571 380 50</u>	<u>(368 247 17)</u>
General Revenues:			
Property taxes			161 926 63
State revenue sharing			261 978 88
Interest			5 203 61
Miscellaneous			12 767 51
Total General Revenues			<u>441 876 63</u>
Change in net assets			73 629 46
Net assets, beginning of year			<u>1 244 113 92</u>
Net Assets, End of Year			<u>1 317 743 38</u>

The accompanying notes are an integral part of these financial statements.

<u>Business Type Activities</u>	<u>Total</u>
<u>Net (Expense) Revenue and Changes in Net Assets</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
-	(9 600 00)
-	(142 460 33)
-	(164 286 18)
-	8 226 41
-	(979 99)
-	(59 147 08)
-	(368 247 17)
(99 327 72)	(99 327 72)
(99 327 72)	(99 327 72)
(99 327 72)	(467 574 89)
-	161 926 63
-	261 978 88
86 928 70	92 132 31
254 507 99	267 275 50
341 436 69	783 313 32
242 108 97	315 738 43
3 234 731 21	4 478 845 13
<u>3 476 840 18</u>	<u>4 794 583 56</u>

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan
BALANCE SHEET – GOVERNMENTAL FUNDS
December 31, 2004

<u>Assets</u>	<u>General</u>
Cash on hand	100 00
Cash in bank	476 541 36
Taxes receivable	195 187 80
Internal balances	70 040 85
Due from State of Michigan	<u>43 946 00</u>
Total Assets	<u><u>785 816 01</u></u>
<u>Liabilities and Fund Equity</u>	
Liabilities:	
Accounts payable	5 580 05
Accrued payroll taxes	1 294 78
Deferred revenue	<u>369 431 43</u>
Total liabilities	<u>376 306 26</u>
Fund equity:	
Fund balances:	
Unreserved:	
Undesignated	<u>409 509 75</u>
Total fund equity	<u>409 509 75</u>
Total Liabilities and Fund Equity	<u><u>785 816 01</u></u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
December 31, 2004

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS

409 509 75

Amounts reported for governmental activities in the statement of
net assets are different because –

Capital assets used in governmental activities are not financial resources and
therefore are not reported in the governmental funds balance sheet:

Capital assets at cost
Accumulated depreciation

1 291 011 33
(382 777 70)

Long-term debt liabilities are not due and payable in the current period and
therefore are not reported in the government funds:

Contract payable

-

TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES

1 317 743 38

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year ended December 31, 2004

	<u>General</u>
Revenues:	
Property taxes	161 926 63
Licenses and permits	56 141 84
Federal grant	10 800 00
State revenue sharing	261 978 88
Charges for services	36 518 54
Interest	5 203 61
Special assessments	195 445 20
Miscellaneous	<u>12 767 51</u>
Total Revenues	<u>740 782 21</u>
Expenditures:	
Legislative:	
Township Board	9 600 00
General government:	
Supervisor	15 920 14
Elections	6 096 78
Assessor	18 925 44
Clerk	16 131 35
Board of Review	783 75
Treasurer	15 900 00
Building and grounds	31 287 03
Unallocated	80 999 67
Public safety:	
Law enforcement	62 355 42
Fire protection	73 291 06
Inspection	35 161 50
Planning and zoning	13 453 75
Public works:	
Highways and streets	36 679 56
Drains	2 443 75
Sanitation	148 095 48
Other:	
Retirement plan	24 373 27
Insurance	34 773 81
Capital outlay	18 636 33
Debt service	<u>59 682 84</u>
Total expenditures	<u>704 590 93</u>
Excess of revenues over expenditures	36 191 28
Fund balance, January 1	<u>373 318 47</u>
Fund Balance, December 31	<u><u>409 509 75</u></u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended December 31, 2004

NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 36 191 28

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(40 880 99)
Capital Outlay	18 636 33

Repayment of debt principal is an expenditure in the governmental funds, the
repayment does not have an effect in the statement of activities but does
reduce the debt balance in the statement of net assets.

Principal payments on long-term debt	59 682 84
--------------------------------------	-----------

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>73 629 46</u>
---	------------------

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

STATEMENT OF NET ASSETS – BUSINESS TYPE FUNDS
December 31, 2004

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
ASSETS:			
CURRENT ASSETS:			
Cash in bank	354 146 07	170 698 60	524 844 67
Taxes receivable	46 860 77	119 630 22	166 490 99
Special assessments receivable	649 832 74	651 562 56	1 301 395 30
Internal balances	-	(70 040 85)	(70 040 85)
Total Current Assets	<u>1 050 839 58</u>	<u>871 850 53</u>	<u>1 922 690 11</u>
NONCURRENT ASSETS:			
Capital Assets	2 362 505 00	7 679 533 00	10 042 038 00
Less: Accumulated Depreciation	<u>(468 462 00)</u>	<u>(1 994 776 00)</u>	<u>(2 463 238 00)</u>
Total Noncurrent Assets	<u>1 894 043 00</u>	<u>5 684 757 00</u>	<u>7 578 800 00</u>
TOTAL ASSETS	<u><u>2 944 882 58</u></u>	<u><u>6 556 607 53</u></u>	<u><u>9 501 490 11</u></u>
LIABILITIES AND NET ASSETS:			
LIABILITIES:			
CURRENT LIABILITIES:			
Deferred revenue	<u>738 553 51</u>	<u>842 871 22</u>	<u>1 581 424 73</u>
Total Current Liabilities	<u>738 553 51</u>	<u>842 871 22</u>	<u>1 581 424 73</u>
NONCURRENT LIABILITIES:			
Contracts payable	<u>1 118 225 20</u>	<u>3 325 000 00</u>	<u>4 443 225 20</u>
Total Noncurrent Liabilities	<u>1 118 225 20</u>	<u>3 325 000 00</u>	<u>4 443 225 20</u>
Total Liabilities	<u>1 856 778 71</u>	<u>4 167 871 22</u>	<u>6 024 649 93</u>
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt Restricted for debt service	<u>775 817 80</u> <u>312 286 07</u>	<u>2 359 757 00</u> <u>28 979 31</u>	<u>3 135 574 80</u> <u>341 265 38</u>
Total Net Assets	<u>1 088 103 87</u>	<u>2 388 736 31</u>	<u>3 476 840 18</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>2 944 882 58</u></u>	<u><u>6 556 607 53</u></u>	<u><u>9 501 490 11</u></u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
BUSINESS TYPE FUNDS
Year ended December 31, 2004

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES:			
Charges for Services:			
Special assessments	<u>75 965 30</u>	<u>196 509 62</u>	<u>272 474 92</u>
Total Operating Revenues	<u>75 965 30</u>	<u>196 509 62</u>	<u>272 474 92</u>
OPERATING EXPENSES:			
Depreciation	<u>56 773 00</u>	<u>192 043 00</u>	<u>248 816 00</u>
Total Operating Expenses	<u>56 773 00</u>	<u>192 043 00</u>	<u>248 816 00</u>
Operating Income	<u>19 192 30</u>	<u>4 466 62</u>	<u>23 658 92</u>
NONOPERATING REVENUES (EXPENSES):			
Transfers from Bay Co. Water and Sewer	31 457 99	223 050 00	254 507 99
Interest income	49 892 99	37 035 71	86 928 70
Interest expense	<u>(48 886 64)</u>	<u>(74 100 00)</u>	<u>(122 986 64)</u>
Total Nonoperating Revenues (Expenses)	<u>32 464 34</u>	<u>185 985 71</u>	<u>218 450 05</u>
Change in net assets	51 656 64	190 452 33	242 108 97
Net assets, beginning of year	<u>1 036 447 23</u>	<u>2 198 283 98</u>	<u>3 234 731 21</u>
Net Assets, End of Year	<u><u>1 088 103 87</u></u>	<u><u>2 388 736 31</u></u>	<u><u>3 476 840 18</u></u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

STATEMENT OF CASH FLOWS – BUSINESS TYPE FUNDS
Year ended December 31, 2004

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	<u>75 965 30</u>	<u>196 509 62</u>	<u>272 474 92</u>
Net cash provided (used) by operating activities	<u>75 965 30</u>	<u>196 509 62</u>	<u>272 474 92</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Net increase (decrease) in cash from CTC Fund recognized in deferred revenue	<u>12 543 00</u>	<u>13 638 44</u>	<u>26 181 44</u>
Net cash provided (used) for non-capital financing activities	<u>12 543 00</u>	<u>13 638 44</u>	<u>26 181 44</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Transfers from Bay Co. W & S	31 614 89	223 050 00	254 664 89
Principal on contracts payable	(73 338 38)	(380 000 00)	(453 338 38)
Interest on contracts payable	<u>(49 043 54)</u>	<u>(74 100 00)</u>	<u>(123 143 54)</u>
Net cash provided (used) by capital and related financing activities	<u>(90 767 03)</u>	<u>(231 050 00)</u>	<u>(321 817 03)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest on investments	<u>49 892 99</u>	<u>37 035 71</u>	<u>86 928 70</u>
Net increase (decrease) in cash	47 634 26	16 133 77	63 768 03
Cash beginning of year	<u>306 511 81</u>	<u>154 564 83</u>	<u>461 076 64</u>
Cash End of Year	<u><u>354 146 07</u></u>	<u><u>170 698 60</u></u>	<u><u>524 844 67</u></u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Income (loss) from operations	19 192 30	4 466 62	23 658 92
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:			
Depreciation	<u>56 773 00</u>	<u>192 043 00</u>	<u>248 816 00</u>
Net Cash Provided (Used) in Operating Activities	<u><u>75 965 30</u></u>	<u><u>196 509 62</u></u>	<u><u>272 474 92</u></u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2004

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Charter Township of Portsmouth, Bay County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Charter Township of Portsmouth. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Fiduciary Funds

These funds are used to account for assets held as an agent for others.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise funds are charges to customers for services. The enterprise funds also recognize as operating revenues the tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes are accrued in the year in which they are levied. The tax levy is recorded as deferred revenue until the subsequent year when it becomes available for use.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2003 tax roll millage rate was 2.2344 mills, and the taxable value was \$72,634,061.00.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$5,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	30-60 years
Vehicles and equipment	3-35 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change

Effective January 1, 2004, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Township's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Township's overall financial position and results of operations has been included.

Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the full accrual accounting for all the Township's activities have been provided.

Capital assets in the governmental activities column of the Statement of Net Assets include net assets totaling \$908,233.63.

Creation of Water and Sewer Funds which include the activities that were previously recorded in the Special Revenue Funds.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2004

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated one bank for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

Total Deposits

Carrying
Amounts

1 400 393 88

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2004

Note 3 – Deposits and Investments (continued)

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	100 000 00
Uninsured and Uncollateralized	<u>1 326 918 68</u>
Total Deposits	<u><u>1 426 918 68</u></u>

The Charter Township of Portsmouth did not have any investments as of December 31, 2004.

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental and Business-Type activities for the current year was as follows:

	<u>Balance 1/1/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/04</u>
<u>Governmental Activities:</u>				
Land	212 975 00	-	-	212 975 00
Buildings	299 300 00	-	-	299 300 00
Equipment	<u>760 100 00</u>	<u>18 636 33</u>	-	<u>778 736 33</u>
Total	1 272 375 00	18 636 33	-	1 291 011 33
Accumulated Depreciation	<u>(341 896 71)</u>	<u>(40 880 99)</u>	-	<u>(382 777 70)</u>
Net Governmental Capital Assets	<u><u>930 478 29</u></u>	<u><u>(22 244 66)</u></u>	<u>-</u>	<u><u>908 233 63</u></u>
<u>Business-Type Activities:</u>				
Water System	2 362 505 00	-	-	2 362 505 00
Sewer System	<u>7 679 533 00</u>	-	-	<u>7 679 533 00</u>
Total	<u>10 042 038 00</u>	-	-	<u>10 042 038 00</u>
Accumulated Depreciation	<u>(2 214 422 00)</u>	<u>(248 816 00)</u>	-	<u>(2 463 238 00)</u>
Net Business-Type Capital Assets	<u><u>7 827 616 00</u></u>	<u><u>(248 816 00)</u></u>	<u>-</u>	<u><u>7 578 800 00</u></u>

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2004

Note 5 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	7 01	Agency	7 01
General	70 040 85	Sewer	70 040 85
General	359 427 08	Current Tax Collection	639 456 51
Sewer	191 308 66		
Water	<u>88 720 77</u>		
Total	<u>709 504 37</u>	Total	<u>709 504 37</u>

Note 6 – Changes in Long-Term Debt

A summary of changes in long-term debt follows:

	<u>Balance 1/1/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/04</u>
Contracts payable – 1977 Bay County Water	124 261 00	-	7 940 00	116 321 00
Contract payable – 1998 Bay County Water	1 067 302 58	-	65 398 38	1 001 904 20
Contract payable – 1990 Bay County Sewage – Series I	3 120 000 00	-	315 000 00	2 805 000 00
Contract payable – 1990 Bay County Sewage – Series II	585 000 00	-	65 000 00	520 000 00
Contract payable – Road Commission	<u>59 682 84</u>	<u>-</u>	<u>59 682 84</u>	<u>-</u>
Total	<u>4 956 246 42</u>	<u>-</u>	<u>513 021 22</u>	<u>4 443 225 20</u>

Note 7 – Contract Payable – 1977 Bay County Water Supply System (Merritt – Portsmouth)

On May 19, 1977, pursuant to an agreement with the Townships of Portsmouth and Merritt, Bay County, issued \$588,000.00 of its bonds to finance the cost of acquisition of water facilities in the Townships. The Township of Portsmouth is responsible for \$233,436.00, 39.7% of the project, and the Township of Merritt is responsible for \$354,564.00, 60.3% of the project. Under this agreement, the Township becomes liable for its share of the bond issue and interest thereon in the event that revenues derived from charges to the system users are insufficient to pay therefore. As of December 31, 2004, the bonds outstanding amounted to \$293,000.00 plus interest. Portsmouth Township's portion of the bonds outstanding is \$116,321.00 and they are backed by the full faith and credit of the Township.

In addition, the terms of the agreement provide for the Township to be liable for any deficiencies in user charges necessary to cover operation and maintenance of the system, as well as any repairs and replacements or extensions and improvements that are made for the benefit of the Township.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2004

Note 7 – Contract Payable – 1977 Bay County Water Supply System (Merritt – Portsmouth) (continued)

The agreement also provides that the County will own the system, and that the system will be operated by the Board of County Road Commissioners as the County's agent until the lessor of forty years or the retirement of all the bonds and related interest. Upon the occurrence of one of these events, the agreement is terminated and title to the system is transferred to the Townships of Portsmouth and Merritt based on their pro rata portion. The following is the detail of bonds outstanding at December 31, 2004. In addition, the Township is obligated to pay its pro rata share of the interest.

<u>Bond Numbers</u>	<u>Due Date</u>	<u>Total Principal</u>	<u>Portsmouth Township Portion</u>
296-315	4/1/05	20,000	7,940
316-337	4/1/06	22,000	8,734
338-359	4/1/07	22,000	8,734
360-383	4/1/08	24,000	9,528
384-409	4/1/09	26,000	10,322
410-435	4/1/10	26,000	10,322
436-461	4/1/11	26,000	10,322
462-487	4/1/12	26,000	10,322
488-513	4/1/13	26,000	10,322
514-538	4/1/14	25,000	9,925
539-563	4/1/15	25,000	9,925
564-588	4/1/16	25,000	9,925
Total Outstanding		<u>293,000</u>	<u>116,321</u>

Note 8 – Contract Payable - 1998 Bay County Water Supply System (Merritt-Portsmouth Extension)

On May 1, 1998, the Township entered into an agreement with Bay County to acquire and construct water storage facilities in the Township. Pursuant to the agreement Bay County issued its bonds to finance the cost of the project. Under the agreement the Township pledges its full faith and credit for payment of the bond issue and, interest thereon in the event that revenues derived from charges to the systems users are insufficient to pay therefor. As of December 31, 2004, the Township of Portsmouth's portion of the bonds outstanding amounted to \$1,001,904.20 plus interest. The following is a detail of bonds outstanding at December 31, 2004. In addition the Township is obligated to pay interest on the bonds.

<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
5/1/05	4.70	65,398.38
5/1/06	4.70	68,014.32
5/1/07	4.70	68,014.32
5/1/08	4.70	68,014.32
5/1/09	4.70	70,630.25
5/1/10	4.70	70,630.25
5/1/11	4.70	70,630.25
5/1/12	4.75	70,630.25
5/1/13	4.75	73,246.19
5/1/14	4.75	73,246.19

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2004

Note 8 – Contract Payable - 1998 Bay County Water Supply System (Merritt-Portsmouth Extension) (continued)

<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
5/1/15	4.75	75,862.12
5/1/16	4.75	75,862.12
5/1/17	4.75	75,862.12
5/1/18	4.75	75,863.12
Total Outstanding		<u>1,001,904.20</u>

Note 9 – Contract Payable – 1990 Bay County Sewage Disposal System (Portsmouth Charter Township)

On November 1, 1990, the Township entered into an agreement with Bay County to acquire and construct sanitary sewage facilities in the Township. Pursuant to the agreement Bay County issued \$6,000,000.00 and \$1,250,000.00 of its bonds to finance the cost of the project. Under the agreement the Township pledged its full faith and credit for payment of the bond issues and interest thereon in the event that revenues derived from charges to the systems users are insufficient to pay therefore. As of December 31, 2004, the bonds outstanding amounted to \$3,325,000.00 plus interest. The following is the detail of the bonds outstanding at December 31, 2004. In addition the Township is obligated to pay interest on the bonds.

<u>Due Date</u>	<u>Total Principal</u>
10/1/05	390,000
10/1/06	395,000
10/1/07	405,000
10/1/08	410,000
10/1/09	415,000
10/1/10	425,000
10/1/11	435,000
10/1/12	450,000
Total Outstanding	<u>3,325,000</u>

Note 10 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 11 – Retirement Plan

The Township has a retirement plan whereby annuities are purchased on behalf of Township employees. All employees, with certain exceptions, are eligible for coverage. Payments to the plan are based on the annual earnings of participating employees. Under the plan, the Township pays three-fourths of the contributions and the participating employees pay the remaining one-fourth of contributions. Employees may contribute an additional 10% of their earnings on a voluntary basis. The Township's share of retirement contributions for the year ended December 31, 2004, was \$24,373.27.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2004

Note 12 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 13 – Building Permits

As of December 31, 2004, the Township had building permit revenues of \$35,161.50 and building permit expenses of \$35,161.50.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended December 31, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	163 000 00	163 000 00	161 926 63	(1 073 37)
Licenses and permits	54 050 00	54 050 00	56 141 84	2 091 84
Federal grant	-	-	10 800 00	10 800 00
State revenue sharing	280 000 00	280 000 00	261 978 88	(18 021 12)
Charges for services	32 000 00	32 000 00	36 518 54	4 518 54
Interest	8 000 00	8 000 00	5 203 61	(2 796 39)
Special assessments	170 000 00	170 000 00	195 445 20	25 445 20
Miscellaneous	42 000 00	42 000 00	12 767 51	(29 232 49)
Total revenues	<u>749 050 00</u>	<u>749 050 00</u>	<u>740 782 21</u>	<u>(8 267 79)</u>
Expenditures:				
Legislative:				
Township Board	9 800 00	9 800 00	9 600 00	(200 00)
General government:				
Supervisor	16 400 00	16 400 00	15 920 14	(479 86)
Elections	6 000 00	8 000 00	6 096 78	(1 903 22)
Assessor	20 000 00	20 000 00	18 925 44	(1 074 56)
Clerk	16 400 00	16 400 00	16 131 35	(268 65)
Board of Review	1 500 00	1 500 00	783 75	(716 25)
Treasurer	16 400 00	16 400 00	15 900 00	(500 00)
Building and grounds	24 000 00	38 000 00	31 287 03	(6 712 97)
Unallocated	83 000 00	83 000 00	80 999 67	(2 000 33)
Public safety:				
Law enforcement	70 000 00	72 000 00	62 355 42	(9 644 58)
Fire protection	89 000 00	89 000 00	73 291 06	(15 708 94)
Inspection	32 000 00	36 000 00	35 161 50	(838 50)
Planning and zoning	12 000 00	15 000 00	13 453 75	(1 546 25)
Public works:				
Highways and streets	65 000 00	40 000 00	36 679 56	(3 320 44)
Drains	5 000 00	5 000 00	2 443 75	(2 556 25)
Sanitation	165 000 00	165 000 00	148 095 48	(16 904 52)
Other:				
Retirement plan	25 000 00	25 000 00	24 373 27	(626 73)
Insurance	35 000 00	35 000 00	34 773 81	(226 19)
Capital outlay	40 000 00	40 000 00	18 636 33	(21 363 67)
Debt service	60 000 00	60 000 00	59 682 84	(317 16)
Total expenditures	<u>791 500 00</u>	<u>791 500 00</u>	<u>704 590 93</u>	<u>(86 909 07)</u>
Excess (deficiency) of revenues over expenditures	(42 450 00)	(42 450 00)	36 191 28	78 641 28
Fund balance, January 1	<u>300 000 00</u>	<u>300 000 00</u>	<u>373 318 47</u>	<u>73 318 47</u>
Fund Balance, December 31	<u>257 550 00</u>	<u>257 550 00</u>	<u>409 509 75</u>	<u>151 959 75</u>

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended December 31, 2004

Township Board:	
Salaries	<u>9 600 00</u>
Supervisor:	
Salary	15 900 00
Supplies	<u>20 14</u>
Elections:	<u>15 920 14</u>
Wages	3 870 00
Supplies	<u>2 226 78</u>
	<u>6 096 78</u>
Assessor	<u>18 925 44</u>
Clerk:	
Salary	15 900 00
Supplies	<u>231 35</u>
Board of Review:	<u>16 131 35</u>
Wages	<u>783 75</u>
Treasurer:	
Salary	10 262 50
Wages	<u>5 637 50</u>
Building and grounds:	<u>15 900 00</u>
Utilities	
Repairs and maintenance	12 503 47
Supplies	9 418 36
Miscellaneous	1 999 60
	<u>7 365 60</u>
Unallocated:	<u>31 287 03</u>
Printing and publishing	
Supplies	769 92
Clerical assistance	23 346 56
Accounting fees	12 058 71
Audit fees	2 475 00
Legal fees	5 600 00
Payroll taxes	18 603 59
Dues, conventions and conferences	2 186 38
Miscellaneous	7 244 06
	<u>8 715 45</u>
Law enforcement:	<u>80 999 67</u>
Contracted services	<u>62 355 42</u>
Fire protection:	
Wages	61 715 56
Supplies	1 400 88
Repairs and maintenance	<u>10 174 62</u>
	<u>73 291 06</u>

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended December 31, 2004

Inspection:	
Building	24 678 50
Plumbing	3 965 00
Electrical	6 518 00
	<u>35 161 50</u>
Planning and zoning:	
Wages	13 453 75
	<u>13 453 75</u>
Highways and streets:	
Street lighting	19 033 96
Street repairs and maintenance	17 645 60
	<u>36 679 56</u>
Drains	2 443 75
	<u>2 443 75</u>
Sanitation:	
Contracted services	148 095 48
	<u>148 095 48</u>
Retirement plan	24 373 27
	<u>24 373 27</u>
Insurance	34 773 81
	<u>34 773 81</u>
Capital outlay	18 636 33
	<u>18 636 33</u>
Debt service	59 682 84
	<u>59 682 84</u>
Total Expenditures	<u><u>704 590 93</u></u>

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES – ALL AGENCY FUNDS
Year ended December 31, 2004

	<u>Balance 1/1/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/04</u>
<u>CURRENT TAX COLLECTION FUND</u>				
<u>Assets</u>				
Cash in bank	462 880 15	2 762 734 14	2 548 828 72	676 785 57
Taxes receivable	<u>1 097 118 01</u>	<u>2 751 612 19</u>	<u>2 927 731 01</u>	<u>920 999 19</u>
Total Assets	<u>1 559 998 16</u>	<u>5 514 346 33</u>	<u>5 476 559 73</u>	<u>1 597 784 76</u>
<u>Liabilities</u>				
Due to other funds	669 532 54	784 567 78	814 643 81	639 456 51
Due to other units	<u>890 465 62</u>	<u>1 802 047 54</u>	<u>1 734 184 91</u>	<u>958 328 25</u>
Total Liabilities	<u>1 559 998 16</u>	<u>2 586 615 32</u>	<u>2 548 828 72</u>	<u>1 597 784 76</u>
<u>AGENCY FUND</u>				
<u>Assets</u>				
Cash in Bank	<u>5 09</u>	<u>79 188 15</u>	<u>79 186 23</u>	<u>7 01</u>
<u>Liabilities</u>				
Due to other funds	5 09	74 061 97	74 060 05	7 01
Due to other units	-	<u>5 126 18</u>	<u>5 126 18</u>	-
Total Liabilities	<u>5 09</u>	<u>79 188 15</u>	<u>79 186 23</u>	<u>7 01</u>
<u>TOTALS – ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash in bank	462 885 24	2 841 922 29	2 628 014 95	676 792 58
Taxes receivable	<u>1 097 118 01</u>	<u>2 751 612 19</u>	<u>2 927 731 01</u>	<u>920 999 19</u>
Total Assets	<u>1 560 003 25</u>	<u>5 593 534 48</u>	<u>5 555 745 96</u>	<u>1 597 791 77</u>
<u>Liabilities</u>				
Due to other funds	669 537 63	858 629 75	888 703 86	639 463 52
Due to other units	<u>890 465 62</u>	<u>1 807 173 72</u>	<u>1 739 311 09</u>	<u>958 328 25</u>
Total Liabilities	<u>1 560 003 25</u>	<u>2 665 803 47</u>	<u>2 628 014 95</u>	<u>1 597 791 77</u>

CAMPBELL, KUSTERER & CO., P.C.

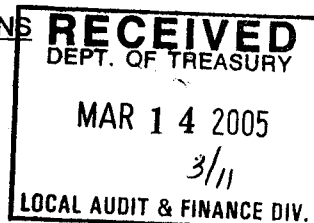
CERTIFIED PUBLIC ACCOUNTANTS

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS



February 25, 2005

To the Township Board
Charter Township of Portsmouth
Bay County, Michigan

We have audited the financial statements of the Charter Township of Portsmouth for the year ended December 31, 2004. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Charter Township of Portsmouth in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board
Charter Township of Portsmouth
Bay County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board issued a new reporting model for governmental units which was required to be implemented for the fiscal year ended December 31, 2004. The implementation of this pronouncement for the Charter Township of Portsmouth began with the year ended December 31, 2004. The daily operations and recording transactions did not change significantly, however, the Township is required to maintain additional records for the year end adjustments to the final presentation format.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated December 31, 2004.

To the Township Board
Charter Township of Portsmouth
Bay County, Michigan

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants